DIRECT TESTIMONY OF
KENNETH R. JACKSON
ON BEHALF OF
SOUTH CAROLINA ELECTRIC AND GAS COMPANY
DOCKET NO. 2005-113-G

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Kenneth R. Jackson, 1426 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Director of Rates and Regulatory Affairs at SCANA Services, Inc.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina ("USC") where I received a Bachelor of Science Degree in Business Administration, majoring in Finance. Since graduating from USC, I have completed numerous graduate level courses in Business and Economics. I joined South Carolina Electric & Gas Company ("Company" or "SCE&G") in September 1978, where I held various positions within the Rate Department over the next eighteen years. In May 1997, I became Team Leader for Industrial Marketing. In October 1997, I was promoted to Manager of Marketing Research and Sales for the Large Customer Group. In July 1999, I was promoted to Assistant Controller for the Fossil and Hydro Strategic Business Unit ("SBU"). In May 2005, I became Director of Rates and Regulatory Affairs. I also currently serve as the Chairman of the Accounting and Finance section of the Southeastern Electric Exchange.

Q. WILL YOU BRIEFLY SUMMARIZE YOUR DUTIES WITH SCANA SERVICES, INC.?

A. I am responsible for the design and administration of the Company's electric and gas rates and tariffs, including the electric fuel adjustment and gas cost adjustment. In addition, I am responsible for the Company's electric and gas allocation studies and regulatory accounting function.

Q. HAVE YOU PRESENTED TESTIMONY TO THIS COMMISSION BEFORE?

A. I have testified before this Commission in previous proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present the rates that the Company is proposing that the Commission adopt to allow the Company the reasonable opportunity to earn a compensatory return. Mr. Jim Swan has testified that the financial health of the Company requires that our rates generate an additional $28.5 million annually based on test year data. Using sales and other billing determinants from the test year, the Company has designed rates that if adopted would be expected to generate that additional revenue. I will explain how those rates were designed and how they vary from existing rates. I will then discuss the cost allocation methodology used by the Company as an element in its rate design.

OVERVIEW

Q. WHAT ARE THE PRINCIPAL CHANGES IN RATES AND RATE DESIGN THAT THE COMPANY IS PROPOSING?

A. As an overview, the principal changes in rates and rate design are as follows:

1. SCE&G is proposing to create two new rates to improve system load factor by providing rate incentives for customers to install non-weather sensitive gas appliances (gas water heaters, dryers and ranges, for example) and to reflect the additional contribution to system revenue made by existing customers with higher summer usage. The new rates are Residential Value Service and Medium General Service. They will apply to customers that meet minimum average load requirements during the summer months.
2. SCE&G is proposing to collect a portion of the additional revenue requirement through an increase in the Basic Facilities Charge ("BFC"). This more accurately reflects the fixed nature of the Company's investment in physical infrastructure and other expenses to serve customers and will put SCE&G's BFCs in line with those charged by other utilities in the region.
3. SCE&G is also proposing a seasonal block charge to recoup costs from customers that disconnect service during the summer months to avoid paying basic facilities charges.

4. SCE&G is proposing to change the accounting methodology for the Environmental Cleanup Costs ("ECC") associated with the Company's former manufactured gas plants ("MGP"). As further discussed below in my testimony and in more detail by the Company's accounting witness, Jim Swan, SCE&G proposes to collect these ECC expenses through base rates rather than as a separate factor.
5. SCE&G is proposing to credit to firm customers the net revenue from interruptible sales. Firm customers typically pay the fixed costs associated with the assets comprising the system. The proposed mechanism will give firm customers the benefit of the net revenue created from the use of those assets through a direct and transparent mechanism.
6. SCE&G is proposing to change the formula for the cost of gas calculation for firm gas commodity sales. SCE&G is proposing to break down the current Purchased Gas Adjustment cost of gas factor into (1) a commodity component which reflects only the cost of gas commodity, and (2) a demand component which reflects the fixed charges on upstream pipelines. All firm customers would be charged the same commodity component, but the demand component will vary among customer classes based on their contribution to system design day peak.
7. Additionally, SCE&G is proposing some miscellaneous changes, including an adjustment to the interruptible transportation rate, the closing out of

some existing rates to new customers, and some revisions to SCE&G's General Terms and Conditions of service. SCE&G has also proposed alternate rates for the Commission's consideration if necessary. Finally, SCE&G is proposing a mechanism to account for revenues generated by any future release of capacity that it may acquire as a result of its upstream supplier's anticipated merger with an interstate pipeline.

Q. WHAT ARE THE COMPANY'S OVERALL OBJECTIVES IN THE RATE DESIGN EFFORT?

A. Our continuing objective in rate design is to provide gas service to our customers at fair prices while earning an adequate return for investors. Additionally, the Company's gas rates should be easily understood by our customers and promote the efficient use of resources. Further, the rates should provide for orderly rate administration by the Company. Our rates should also encourage efficiencies among our commercial and industrial customers and help them improve their ability to compete in domestic and foreign markets. The Company also seeks to encourage new customers to locate in South Carolina as well as keep existing customers in the State.

Q. WHAT WERE YOUR SPECIFIC OBJECTIVES IN DESIGNING THE RATES PROPOSED IN THIS PROCEEDING?

A. In addition to attempting to meet the overall objectives discussed above, in designing these rates the Company sought to address issues that have arisen in the last sixteen years since the last rate adjustment in 1989. The proposed rates move toward a more cost-causation based design. They more accurately reflect cost causation for the customers in the applicable rate category. We have attempted to design rates that are more reflective of current system operations, adjusting to recognize changes in the natural gas industry and market, and to send the correct price signals. To that end, we have created new rate schedules where necessary, and closed out the rates that did not fulfill these objectives and were not heavily utilized. We designed these rates with appropriate regard to principles of cost causation, increasing rates of those customers who were creating the need for additional expenditures.

RATE DESIGN

1. New Rates

Q. PLEASE EXPLAIN THE CHANGES IN THE RATE DESIGN FOR THE PROPOSED RATES.

A. As I have previously discussed, there are several changes from SCE&G's existing gas rates to the proposed ones. The Company has created two new rates. The first is Rate 32V, the Residential Value Service rate. Customers who average at least 10 therms of gas usage during the months of June, July, and August are eligible for the new Residential Value Service rate. Those customers not averaging at least 10 therms of gas usage during those months will be placed on the Residential Standard Service rate (Rate 32S). Customers qualifying for the Residential Value Service rate will be offered that rate based on a load analysis that the Company will perform annually.

The Company proposes to implement the new Residential Value rate for several reasons. First, the Residential Value rate is designed to encourage existing heat-only customers and builders to utilize non-weather sensitive gas appliances in their homes, which benefits the system by improving overall load factor. Second, the Residential Value rate rewards existing customers who have higher summer usage because of non-weather sensitive appliances. The new rate provides customers with an economic incentive to improve their summer load, thus utilizing infrastructure and resources in a more efficient manner, which benefits all customers.

Q. WHAT IS THE SIGNIFICANCE OF THE BREAKPOINT OF 10 THERMS TO QUALIFY FOR THE RESIDENTIAL VALUE RATE?

A. Ten therms is generally the point where the residential load pattern shows a demarcation among seasonal and non-seasonal users. This reflects the amount of therms typically consumed during warmer months when a residential customer has a non-weather sensitive gas appliance such as a water heater, or a combination of a gas range and gas dryer, for example.

Q. WHAT ARE THE DIFFERENCES BETWEEN THE RESIDENTIAL VALUE AND THE RESIDENTIAL STANDARD RATES?

The first difference between the Residential Value and Residential Standard rates is in the commodity charge. The commodity charge for the Residential Value rate is six cents less per therm than that of the Residential Standard rate due to the better year-round utilization of gas facilities of the Residential Value customers.

Another difference between the Value and Standard residential rates is the application of the Basic Facilities Charge ("BFC"). For Residential Standard customers, the proposed BFC is $10.75 per month from November through April and $5.75 per month from May through October, which results in a mean annual BFC of $8.25 per month. For Residential Value customers, the BFC is $8.25 per month year round.

Q. WHAT IS THE SECOND NEW RATE YOU MENTIONED?

A. The second new rate is Rate 33, Medium General Service. This rate will apply to commercial customers averaging at least 130 therms during the summer months of June, July, and August. Again, the reason for the development of this new rate is to provide an economic incentive for customers to improve their summer usage and reward existing customers whose use of non-seasonal gas appliances provide contributions to valuable summer load. Approximately 20% of current General Service customers fall into a usage pattern of greater than 130 therms. These customers generate approximately 70% of sales in that rate category.

Q. WHAT ARE THE DIFFERENCES BETWEEN THE MEDIUM GENERAL SERVICE RATE AND THE GENERAL SERVICE RATE?

A. The volumetric charge is five cents less per therm for the Medium General Service customer than for the General Service customer, again reflecting the value of their higher summer usage. Additionally, the BFC for General Service is $15.50 per month from November through April and $9.50 per month from May through October, which results in a mean annual BFC of $12.50 per month. The BFC for Medium General Service is $25.00 per month. The Medium General Service customers will pay a higher BFC because they typically have larger infrastructure requirements.

2. Basic Facilities Charge

Q. PLEASE DISCUSS THE CHANGES REGARDING THE BASIC FACILITIES CHARGES.

A. In designing the proposed rates, the Company sought to adjust the current BFCs to more closely reflect the actual costs associated with the fixed component of the rate. As reflected in Exhibit No. ___ (KRJ-1), which includes a pro forma calculation of the BFC based upon the cost of service after the requested increase in the Company's revenue, a strictly cost-based approach justifies an increase in the residential BFC to $12.19. To avoid such a dramatic change to the current BFC, the Company elected to propose a smaller increase in the BFC instead of implementing the full amount justified by the Cost of Service Study.

I have reviewed data concerning the BFCs charged by natural gas utilities around the nation. These data show that the Company's current BFC of $3.00 is tied for the lowest in the United States among 106 companies. These data also show that the current BFC is the third-lowest nationwide among 209 electric and gas utilities.

These data demonstrate two relevant points relating to the BFCs: first, that BFCs in the Southeast are slightly higher than in the rest of the country and, second, that natural gas BFCs are higher than electric BFCs. These national trends and the Company's unusually low BFC lend support for making an upward change to bring the Company in line with other comparable utilities. For example, the requested BFC for residential value customers is $8.25 (Rate 32V) and the mean BFC for residential standard customers is $8.25 (Rate 32S). The average BFC for natural gas utilities in the Southeast is $8.71, with a high of $13.04. Thus, even with the proposed increase, the Company's BFC for residential customers will be below the average for the Southeast. A chart comparing the proposed and current BFCs to the relevant cost of service and the Southeastern regional average for BFCs is attached as Exhibit No. ___ (KRJ-1).

3. Seasonal Block Charge

Q. PLEASE DISCUSS THE SEASONAL BLOCK CHARGE.

A. The physical infrastructure required to deliver gas to customers remains in place during the warmer seasons whether or not customers elect to temporarily disconnect their gas service. Accordingly, the Company is proposing to add a seasonal block charge. This charge would be imposed on customers who disconnect service and subsequently request reconnection of service at the same premises within a twelve-month period. The charge is equivalent to the cumulative BFCs for the number of months during which service was disconnected. This charge is designed to ensure that these customers bear their fair share of the costs of the physical infrastructure required to serve them.

4. Environmental Cleanup Costs

Q. PLEASE DISCUSS THE PROPOSED CHANGES TO THE ENVIRONMENTAL CLEANUP COST FACTOR WHICH YOU MENTIONED EARLIER.

A. The Company is proposing to change the mechanism for recovery of the environmental clean up cost ("ECC") approved by the Commission in Order No. 94-1117. Instead, the Company would collect these costs through base rates, recovering some costs as normal operating expenses and using a fixed amortization amount for deferred costs.

Q. PLEASE EXPLAIN.

A. The ECC mechanism allows the Company to recover costs related to environmental investigation and remediation at its former manufactured gas plant ("MGP") sites. These are sites where gas was manufactured from coal. The ECC is a volumetric surcharge on gas sales. The current ECC factor is $0.008 per therm as set in Purchased Gas Adjustment ("PGA") Order No. 2003-652.

The Natural Gas Rate Stabilization Act now allows the Commission to review on an annual basis all costs related to operating SCE&G's natural gas system. Accordingly, the Company proposes to roll the ongoing recovery of MGP costs into base rates. As Mr. Swan has testified, certain of the ongoing costs would be treated as normal operating costs. In addition, the Company would continue to record appropriate MGP environmental costs in deferred accounts and would amortize deferred costs into expenses using a fixed annual amortization amount. However, collection of the resulting revenue requirements would not be subject to any form of special surcharge. The details of this proposal are set forth in the testimony of the Company's accounting witness, Mr. Swan.

5. Interruptible Margin Revenue Credit

Q. PLEASE BRIEFLY DISCUSS THE COMPANY'S INTERRUPTIBLE SALES.

A. The interruptible customers on our system are large industrial and commercial facilities with the capability of burning alternative fuels when the relative price of natural gas, compared to their alternative fuel, is unattractive. Alternative fuels may be No. 2 or No. 6 fuel oil, coal, propane or natural gas purchased and transported by the customer. Interruptible customers can and do rely on alternative fuels whenever the price of such fuels makes it economical for them to do so. Because of the competitive nature of interruptible gas service, the Commission has historically allowed SCE&G to bid against the customers' alternative fuel supply on a month-to-month basis. This practice would not change under this new proposal.

Q. HOW WOULD THE INTERRUPTIBLE MARGIN REVENUE BE ACCOUNTED FOR UNDER THE MECHANISM THE COMPANY IS PROPOSING IN THIS PROCEEDING?

A. The margin revenues from interruptible sales and transportation provided to customers on SCE&G's system will be credited to the monthly cost of gas calculation for firm customers. The credit would be net of an amount equal to $0.02081 per therm which SCE&G proposes to treat as a contribution to the cost of gas operations, thereby recovering the cost of providing service to interruptible customers from these revenues.

Under the new approach, SCE&G would continue to bid prices to interruptible customers monthly based on their competitive fuel price. SCE&G would continue to be allowed to reduce its margin as required to make a sale, or to recover a full margin if the customer's competitive price would support it. After the sale, SCE&G would credit the net margins earned from interruptible sales to the cost of gas it charges firm customers under the PGA schedule. The credit would take the form of a credit to the monthly upstream capacity charges included in the purchased gas cost calculation for firm customers. The credit would represent the aggregate monthly margin earned from service to interruptible customers, with the only deduction being a $0.02081/therm contribution to SCE&G's costs that would be deducted from the monthly total. The credits would then flow back to firm customers as a reduction to actual cost of gas recovered through the PGA mechanism subject to full Commission oversight and review.

Q. WHAT IS THE DERIVATION OF THE $0.02081 PER THERM CONTRIBUTION TO SCE&G'S COSTS?

A. This figure represents the fully allocated cost of service for the interruptible customer class for the test period computed on a per therm basis. It includes both the O&M costs associated with serving that class, as well as depreciation expenses and cost of capital related to the fixed assets (meters, service lines, *etc.*) directly allocable to service of customers in that class.

Q. WHAT ARE THE REASONS FOR THIS PROPOSAL?

A. There are several reasons to adopt this approach. First, this proposal creates a direct and transparent mechanism for margins earned through interruptible sales to be credited to the firm customers. Under the proposal, the net margins earned will be computed monthly and flow through to firm customers directly with each PGA adjustment.

Additionally, the new method will work much better in conjunction with the newly adopted Natural Gas Rate Stabilization Act, S.C. Code §§ 58-5-400, *et seq.* (2005). That Act provides for an annual review of actual gas utility earnings with adjustments in rates up or down if the resulting ROE falls outside a band of 100 basis points. The existing approach to interruptible sales creates the risk of a wide range of reported earnings under the Act from year to year due to changes in interruptible margin revenue. This could in turn result in an erratic pattern of rate changes under the Act if this new approach is not adopted.

6. Cost of Gas

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED TREATMENT OF THE GAS COST COMPONENT.

A. In past proceedings, the Company has used a single gas cost factor for all customer classes. It has passed through all gas supply costs, including fixed charges on upstream pipelines, using that single factor. While there is great simplicity to this approach, there is an inherent mismatch in it. The mismatch relates to how fixed charges on upstream pipelines are allocated. Included in gas supply costs are the fixed monthly capacity charges and reservation fees that SCE&G pays for transportation, storage and LNG services on upstream pipelines ("Capacity Related Charges"). SCE&G pays these Capacity Related Charges to ensure that transportation is available to meet firm customer demands on any day of the year, especially the coldest days when firm demands are greatest. Each customer class contributes to the amount of these Capacity Related Charges based on the peak design day demand that the customer class places on the system. In short, Capacity Related Charges are *demand* based costs, not volumetric based costs.

To reflect the demand related nature of these costs, SCE&G is proposing to include two separate components in future cost of gas calculations. Commodity and other volumetric costs of gas supply would continue to be passed through equally to all firm customer classes using a single firm commodity benchmark. A second component of the cost of gas factor, the demand charges component, would be computed separately to recover Capacity Related Charges from specific customer classes based on their contribution to peak design day demand. The two components, the system-wide firm commodity benchmark and the class-specific demand charges component, together would constitute the firm cost of gas factor applicable to the specific firm customer class.

Q. APART FROM COST CAUSATION, ARE THERE OTHER REASONS FOR USING THIS TWO PART CALCULATION?

A. Yes. Making this revision in the cost of gas calculation allows the Company to provide for a more equitable crediting of net interruptible revenues to customer classes. Under the mechanism SCE&G is proposing, net interruptible revenue credits will be allocated among customer classes using the same peak design day demand factor used to allocate Capacity Related Charges among customer classes. As a result, each customer class will be allocated net interruptible revenue credits based on the same percentages on which they are paying the cost of the upstream capacity used to make those interruptible sales.

Q. WHAT IS THE PRACTICAL EFFECT OF THIS TWO PART ALLOCATION?

A. The practical effect of this two part allocation can be illustrated by applying this approach to the test year data using the current PGA factor. However, it is important to note that it is the *methodology* for which the Company is seeking approval. The actual numbers are based on test year information and the current PGA factor, which will vary over time. Applying this new cost of gas allocation to the test year data using the current PGA factor, the firm cost of gas factor drops from \$0.90347/therm for all firm customer classes under the earlier methodology to \$0.87620/therm for the Residential class, to \$0.81267/therm for the Commercial class, and to \$.79399/therm for firm industrial sales customers.

Q. HOW WERE THESE NUMBERS CALCULATED FOR PURPOSES OF THIS DEMONSTRATION?

A. To calculate the firm cost of gas components for this example, we begin with the current gas cost factor, established in SCE&G's most recent Purchased Gas Adjustment proceeding. As indicated above, that amount is \$0.90347/therm. Included in that amount are the expenses related to current period Capacity Related Charges, as approved in the 2004 PGA proceeding.

To illustrate the application of the proposed two part allocation for the cost of gas, we calculated the difference between the current volumetric demand cost collection method by class and the proposed demand cost recovery method by class (based on peak design day percentages). These differences by class were then reduced by the net interruptible revenue credits by class, thereby producing a new demand charge by class. The recalculated demand charges by class were then divided by actual test year sales by class, reducing the cost of gas factor by \$0.02727/therm for the Residential class, by \$0.09080/therm for the General Service class, and by \$0.10948/therm for the Large General Service class. Again, these numbers are for illustration purposes only, since they are calculated using test year data and the current PGA factor.

Q. PLEASE EXPLAIN THE OTHER COMPONENT OF THE COST OF GAS CALCULATION.

A. The other component of the firm cost of gas factor would be the firm commodity benchmark. It applies equally to all firm customer classes and represents the commodity cost of gas, without Capacity Related Charges, divided by system-wide firm sales. For example, during the test period, the firm commodity benchmark would have been $0.69802/therm, reflecting commodity costs of $281.2 million, less commodity costs of $130.7 million related to interruptible sales, divided by firm sales of 215,660,338 therms. With respect to firm customers, when the class specific demand charge component is added to the system-wide firm commodity benchmark of $0.69802/therm, the result is the firm cost of gas factor for each firm customer class as indicated above.

Q. HOW WOULD SCE&G COMPUTE THE NET INTERRUPTIBLE REVENUE CREDITS FOR THE FIRM COST OF GAS CALCULATION?

A. The net interruptible revenue credit represents the revenue generated from interruptible sales less the commodity cost of gas and the $0.02081/therm amount credited to SCE&G's regulated operations to recover the cost of providing service to interruptible customers. As with other factors that are part of SCE&G's cost of gas calculation, an amount of net interruptible revenue credits would be forecasted in each year's PGA proceeding and included in the firm cost of gas factor established there. The forecast amount of net interruptible revenue credits would be applied against the forecasted firm capacity charges for the year in computing the demand cost component of the cost of gas.

Q. HOW WOULD THE NET INTERRUPTIBLE REVENUE CREDITS BE PASSED THROUGH TO CUSTOMERS?

A. SCE&G would credit the net interruptible revenue credits actually earned in a given month by including that revenue in its calculation of over and under recovery of firm costs of gas for that month. Presently, SCE&G computes over and under collections of its firm cost of gas monthly by comparing actual gas cost expenses to the amounts collected through the firm cost of gas component established in the PGA. Under the proposed method, SCE&G would continue to make these monthly calculations, but would calculate them by customer class, and would include in them the actual amount of net interruptible revenue in that month credited to each customer class. A separate balance of over or under collection would be calculated each month for each customer class. These cumulative over or under collections would be used to set the firm cost of gas factor in the next PGA.

Q. WHAT COST OF GAS WILL APPLY TO COMPETITIVELY-PRICED INTERRUPTIBLE SALES?

A. The system-wide commodity cost for each month will apply to competitively-priced interruptible sales.

Q. IS THE COMPANY PROPOSING SPECIFIC CHANGES TO THE PGA TARIFF RELATED TO THIS PROPOSAL?

A. Yes. SCE&G only makes interruptible sales when calculations show that such sales will be profitable. However, interruptible sales are made before the start of a month or, in some circumstances, during the middle of the month. The commodity benchmark, on the other hand, reflects the average cost of all gas consumed during the full month and can only be computed after the month is over. In certain very limited circumstances, these timing differences can create what appear to be aberrations in the net margin earned on individual sales when these margins are calculated after the month closes. These aberrations would be the result of timing differences and not a problem with the mechanism.

We are proposing language in SCE&G's PGA tariff that would authorize SCE&G to make specific adjustments in the allocation of gas supplies among customer classes if net margin aberrations occurred. Under the proposed PGA tariff, SCE&G would be required to disclose in writing to the Commission and the Office of Regulatory Staff any use of this authority. In the Company's annual PGA proceedings, any concerns about how this authority had been used could be addressed before a new cost of gas factor was imposed.

7. Miscellaneous

Q. WHAT CHANGES ARE YOU PROPOSING TO MAKE IN FIRM TRANSPORATION RATES?

A. In the past, we have priced firm transportation rates without including the Capacity Related Charges discussed above. The Capacity Related Charges are fixed costs that are paid each month and do not go away simply because a customer has chosen to transport gas rather than buying commodity gas from SCE&G in a given month.

Accordingly, to ensure that these Capacity Related Charges are recovered and that payment responsibility for them is not shifted to other customers, the Company is proposing to include $0.03750/therm in the charge to firm transportation customers. The result is a more equitable pricing of transportation services.

Q. DO THE PROPOSED RATE SCHEDULES CONTINUE ALL OF THE EXISTING RATES PROSPECTIVELY?

A. No. The proposed tariffs close out certain rates to new installations. SCE&G proposes to close Rate 36, Gas Lighting, as well as the Gas Air Conditioning Rider for Rates 31, 32, and 34 to new customers. The few customers who are currently served under these rates would be grandfathered and would not be affected by this change.

Q. HAS THE COMPANY PROPOSED ANY CHANGES TO ITS GENERAL TERMS AND CONDITIONS OF SERVICE?

A. Yes. The changes relate to various matters including but not limited to delivery pressure, range of heating value, access to customers' premises, termination of service in the event that a customer's use of the service is unlawful, nonwaiver by the Company, the Seasonal Block Charge discussed above, general billing terms, setoff of claims, service charges, computation of volumes delivered for metering purposes, adjustments for inaccurate meters, and force majeure. A copy of the proposed General Terms and Conditions with the revisions indicated is attached as Exhibit No. ____ (KRJ-2).

Q. IS THE COMPANY PROPOSING ALTERNATE RATES?

A. Yes. While the Company believes that the rates it is proposing in this proceeding are the best ones to accomplish the objectives I discussed earlier, the Company has also provided as a part of this proceeding an alternative set of rates which, if adopted, would generate the same amount of revenue as the rates proposed by the Company. These alternative rates reflect a rate design that involves a lesser increase in the BFC and a greater increase in the commodity charge assessed on volumes flowing through the system. The Commission included these alternate rates in the public and customer notices of the Application at the Company's request to ensure that lack of notice does not limit the Commission's flexibility in considering the request that the majority of the increase be directed to the BFC. Again, however, the Company prefers that the Commission adopt its proposed rates, not the alternate ones, since the proposed rates best accomplish the Company's objectives as discussed above.

CAPACITY RELEASE

Q. WHAT OTHER REQUESTS IS THE COMPANY MAKING IN THIS APPLICATION?

A. SCE&G currently acquires all of its gas supplies for its gas distribution operations through its upstream supplier, South Carolina Pipeline Corporation ("SCPC"). SCPC has announced that it intends to merge with an interstate pipeline. After required regulatory approvals have been received, SCPC would cease providing merchant services. Thereafter, SCE&G would be responsible for obtaining transportation capacity on interstate pipelines necessary to deliver natural gas to SCE&G's system in South Carolina.

With the acquisition of this capacity comes the opportunity to release capacity at certain times. In this application, SCE&G is requesting approval to account for revenue generated by any future release of capacity that it may acquire, by allocating 75% of the net proceeds of those releases as a credit to the monthly cost of gas calculation for firm customers, and 25% of the net proceeds from those releases for the benefit of its shareholders. This allocation is in accordance with the Commission's treatment of other similarly situated gas distribution facilities.

Further, the new proposal relating to interruptible sales margin revenue would not require alteration to accommodate the transition of SCE&G from a customer of merchant services to an independent interstate shipper of natural gas. Once our current supplier ceases to provide merchant services, SCE&G will buy its gas supplies from marketers or producers and transportation capacity directly from interstate pipelines. The proposal we make in this application would authorize SCE&G to remarket interstate capacity and other interstate assets and pass the appropriate revenues on to customers directly.

The Company requests that the Commission authorize SCE&G to determine when market conditions make it a prudent business practice to release or withhold capacity, and that the Company not be required to release any available upstream capacity irrespective of market price. Additionally, the Company would request that the Commission specifically grant SCE&G the discretion to determine when it would release transportation capacity that it has reserved on upstream pipelines.

Q. DOES THAT CONCLUDE YOUR DESCRIPTION OF THE PROPOSED RATES?

A. Yes.

<u>COST OF SERVICE</u>

Q. DID THE COMPANY PERFORM ANY STUDIES IN CONNECTION WITH THE RATE DESIGN PROPOSED IN THIS PROCEEDING?

A. Yes. Once the Company determined the revenue requirement necessary to meet the requested return on equity, the rate department performed a cost of service study ("Cost of Service Study" or "Study") to test the feasibility of the proposed rate design and to determine whether the proposed rate design fairly apportioned the revenue requirement among the customer classes. This Study was conducted by employees in my department. A summary of the results of the Cost of Service Study is attached as Exhibit No. ____ (KRJ-3).

Q. WHAT IS A COST OF SERVICE STUDY?

A. A cost of service study is a study that measures the Company's costs of serving and the returns resulting from the various classes of customers (*e.g.*, residential, general service, large general service, *etc.*). The Cost of Service Study used in preparing the rates in this proceeding uses principles and methodologies that have been accepted in the industry as appropriate for setting rates for natural gas utilities. This Study is based on standard rate making methodologies recognized throughout the industry.

Q. WHAT ROLE DID THE COST OF SERVICE STUDY PLAY IN TESTING YOUR PROPOSED RATE DESIGN?

A. The Cost of Service Study was a tool that aided and informed us in our rate design. It should be pointed out that cost of service studies for gas rates are intended only to indicate general and relative levels of profitability. Because gas cost of service studies are based upon various assumptions and subjective evaluations, the resulting returns are only indicative and not definitive. Although not definitive, a cost of service study is nevertheless a valuable tool in informing us about the approximate and relative cost of serving each customer class.

Q. HOW IS THE COST OF SERVICE STUDY VALUABLE?

A. It validates our rate design and helps ensure that it approximates the costs associated with providing service to any given customer category. One principle underlying the allocations of plant investment and expenses in a cost of service study is *cost causation*. The allocation methodologies should reflect the basis of what caused the cost to be incurred.

Allocation of the Company's expenses to the category of customers that causes those funds to be expended is a guiding principle of our rate design. We attempt to design rates so that differences in rates to consumers reflect the differences in the cost of the elements that go into the final delivery of natural gas service to those customers.

Q. PLEASE EXPLAIN THE MAJOR COSTS INCURRED BY SCE&G AND HOW THAT IMPACTED YOUR RATE DESIGN.

A. The major components of the price of gas to the ultimate consumer are twofold: (1) the cost of acquiring the gas; and (2) the cost of distributing it to the consumer. A local distribution company such as SCE&G must recover all of the distribution costs, both fixed and variable, that it incurs. These include such costs as constructing and maintaining distribution pipes and propane air plants, conducting safety inspections, reading meters, and billing the customers. For a natural gas utility, these costs are generally fixed costs. Because many of the cost components are fixed costs, the Company is seeking to recoup most of those expenses through the BFC, as discussed above. While some fixed costs are still recovered through the volumetric component of the rate, the Company is seeking through these proposed rates to lessen the reliance upon a volumetric, consumption-related price signal and reflect through the BFC that a substantial portion of the costs are fixed.

Q. HOW DOES THE COMPANY CLASSIFY THESE COSTS?

A. The Company's costs in delivering natural gas to its customers are generally classified in one of three ways: (1) "demand costs," which include the expenses which the Company incurs in proportion to the throughput required by our customers on various segments of the system, such as the actual distribution facilities; (2) "commodity costs," which are those variable, non-gas costs that vary with the number of therms consumed on the system; and (3) "customer costs," which are incurred primarily as a function of the number of customers served and include such expenses as meter investment and expenses, customer accounting and sales expenses.

Q. PLEASE EXPLAIN HOW THESE COSTS ARE APPORTIONED AMONG USERS OF THE COMPANY'S DISTRIBUTION SYSTEM.

A. Costs that can be specifically attributed to a customer or customer class are directly assigned to that customer or class. The remaining costs are allocated among the classes benefitting from those expenditures. In other words, if a cost is incurred by the Company which benefits the entire system, then that cost is allocated among all customers according to various allocation factors developed by our rate department.

For example, one of the allocators used to assign demand costs to customer classes is based 50% on the customer class's share of commodity sales and 50% on its contribution to design day peak. The commodity sales component of this allocator is developed from the annual gas sales by class of customer. We collect data on gas consumption by customer class and we used actual test period data in making the allocation. The development of the peak design day component of the allocator is discussed in the testimony of the Company's witness Dow Bailey.

Q. HOW ARE THE ALLOCATORS USED?

A. Many of the costs that are incurred which benefit the system as a whole and therefore cannot be directly assigned to a particular customer or class are allocated with the 50-50 allocator discussed above. Below is a table that represents the components of the 50-50 allocator for each rate category.

Category of Use	**50% of Annual Sales**	**50% of Peak Design Day**	**Final Cost Allocation Based on 50-50 Allocator**
Residential	15.35%	36.65%	52.00%
Small General Service	9.34%	11.33%	20.66%
Large General Service	2.75%	2.02%	4.78%
Total Firm	27.43%	50.00%	77.43%
Total Interruptible	22.57%	0.00%	22.57%
Total Throughput	50.00%	50.00%	100.00%

Q. WERE OTHER TYPES OF ALLOCATORS USED IN YOUR RATE DESIGN?

A. Yes, other types of costs are allocated among customer classes using different allocators. These include, for example, a sales allocator and the peak design day allocator.

Q. WHAT COSTS ARE APPORTIONED USING THE SALES ALLOCATOR?

A. Since commodity costs reflect the variable cost of delivering gas using the system already in place, the sales allocator is the most appropriate mechanism to allocate commodity costs. Therefore, the Company's gas sales during the test year by class of customers were used to allocate these costs.

Q. WHAT COSTS ARE APPORTIONED USING THE PEAK DESIGN DAY ALLOCATOR?

A. Costs associated with the Company's propane air plants are apportioned based on the peak design day allocation factor. Again, the development of the peak design day allocation factor is explained in the prefiled testimony of Dow Bailey.

Q. WOULD YOU PLEASE DESCRIBE THE ALLOCATION OF REVENUES AND OTHER RETURN ITEMS?

A. The revenues from sales of gas are directly assigned to the customer class which generated them. Other Operating Revenues were assigned to categories using factors related to these revenue sources. The cost of purchased gas combined both consumption and the price paid for the gas as the basis for separation into categories.

Other operation and maintenance expenses were assigned using related plant or other appropriate factors.

Q. WHAT DID THE COST OF SERVICE STUDY SHOW?

A. In performing the Study, the Company calculated the rates of return on rate base for the residential, commercial, firm industrial, and interruptible industrial categories. The results of the Study indicated that the earned rate of return for the residential class is significantly lower than the Company's overall return, while the returns for all other groups exceeded the overall return for the Company. The Study reinforced our decision to adjust the residential schedules so that the residential class will contribute a positive return and, therefore, provide a more reasonable contribution toward meeting the Company's revenue requirement.

Q. WHAT POSITION HAS THE COMPANY TAKEN IN ITS RATE DESIGN WITH REGARD TO THE RESIDENTIAL CUSTOMER CLASS?

A. Complete equalization of rates of return by class would lead to a larger increase in rates for residential customers, which the Company has sought to avoid. As previously stated, cost of service is only one of several factors considered in designing gas rates. The proposed rates reflect the Company's efforts to design rates using principles of cost causation as a guideline but also utilizing its experience and expertise to accomplish the objectives that I discussed at the beginning of my testimony. The proposed rates make progress toward equalization of return for all classes.

CONCLUSION

Q. WOULD YOU PLEASE BRIEFLY SUMMARIZE THE POINTS YOU HAVE DISCUSSED?

A. In my testimony, I have provided an explanation of the proposed rate design including the two new rates, Residential Value and Medium General Service; the BFC; the seasonal block charge; the proposal relating to the ECC; the interruptible margin revenue credits; the changes to the cost of gas calculation; and other miscellaneous changes. I have also explained how the Cost of Service Study provided verification that the proposed rate design moved more toward a cost-causation based approach, and explained the allocation factors the Company utilized to help assure that each customer class contributed toward recovering the costs expended for their benefit as well as contributing to meeting the Company's revenue requirement.

Q. WHAT ACTION IS THE COMPANY REQUESTING THAT THE COMMISSION TAKE IN THIS PROCEEDING?

A. SCE&G is requesting that the Commission approve the recommended rate schedules attached to its application for use on or after November 1, 2005, as well as approve the other proposals discussed herein.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
BASIC FACILITIES CHARGE
DOCKET NO. 2005-113-G
12 MONTHS ENDED DECEMBER 2004

	CURRENT CHARGE	PROPOSED CHARGE		Pro Forma After Increase COST OF SERVICE BFC	Southeast Regional AVERAGE BFC
RESIDENTIAL	$3.00	$8.25		$12.19	$8.71
SMALL GENERAL SERVICE	$8.50	$15.50 $9.50	(Nov-April) (May-Oct)	$45.57	N/A
MEDIUM GENERAL SERVICE (Proposed New Rate)	$8.50	$25.00		N/A	N/A

EXHIBIT NO.___(KRJ-1)

GENERAL TERMS AND CONDITIONS

I. GENERAL

A. Foreword

1. In contemplation of the mutual protection of both South Carolina Electric & Gas Company and its Customers and for the purpose of rendering an impartial and more satisfactory service, the General Terms and Conditions of the Company are hereby set forth and filed with the Public Service Commission of South Carolina, which has jurisdiction over public utilities, so as to read as hereinafter set forth; the same being incorporated by reference in each contract or agreement for service.

2. These Terms and Conditions are supplementary to the Rules and Regulations issued by the South Carolina Public Service Commission covering the operation of gas utilities in the State of South Carolina.

3. These Terms and Conditions may be supplemented for specific customers by contract.

4. South Carolina Electric & Gas Company is referred to herein as "Company", and the user or prospective user is referred to as "Customer". The Public Service Commission of South Carolina is referred to herein as "Commission".

B. Application

1. Provisions of these Terms and Conditions apply to all persons, partnerships, corporations or others designated as Customers who are lawfully receiving gas service from the Company under the prescribed Rate Schedules or contracts filed with the Commission. Receipt of service shall constitute a contract between Customer and Company. No contract may be transferred without the written consent of the Company.

2. **Term of Service** – The rates as prescribed by the Commission are based upon the supply of service to each individual ~~Customers~~Customer for a period of not less than one year, except as otherwise specifically provided under the terms of the particular Rate Schedule or contract covering such service.

3. **Terms and Conditions** – The Terms and Conditions contained herein are a part of every contract for service entered into by the Company and govern all classes of service where applicable unless specifically modified as a provision or provisions contained in a particular Rate Schedule or contract.

4. **Statement by Agents** – No representative of the Company has authority to modify any rule of the Commission, provisions of Rate Schedules, or to bind the Company by any promise or representation contrary thereto.

II. DEFINITIONS

Except where the context otherwise indicates another or different meaning or intent, the following terms are intended and used and shall be construed to have meanings as follows:

A. "Day" shall mean period of twenty-four (24) consecutive hours beginning at 10:00 a.m.~~8:00 a.m.~~ eastern time or at such other hours as may be designated.

B. "Month" or "Billing Month" shall mean the period between any two (2) regular readings of Company's meters which shall be not less than twenty-eight (28) days or more than thirty-four (34) days.

C. "Year" shall mean a period of 365 days commencing with the day of first delivery of gas hereunder, and each 365 days thereafter except that in a year having a date of February 29, such year shall consist of 366 days.

D. "BTU" shall mean a British Thermal Unit: the amount of heat required to raise the temperature of one (1) pound of water one degree Fahrenheit (1°F) at sixty degrees Fahrenheit (60° F).

E. "Therm" shall mean the quantity of heat energy which is 100,000 British Thermal Units.

F. "Dekatherm" (dt) shall mean the quantity of heat energy which is 1,000,000 British Thermal Units.

G. "Cubic Foot of Gas" shall mean the amount of gas necessary to fill a cubic foot of space when the gas is at a temperature of sixty degrees Fahrenheit (60° F) and under an absolute pressure of fourteen and seventy-three hundredths pounds per square inch (14.73 psia).

H. "CCF" shall mean one hundred (100) cubic feet of gas.

I. "MCF" shall mean one thousand (1,000) cubic feet of gas.

J. "Natural Gas" or "Gas" shall mean natural gas, processed or unprocessed, vaporized liquid natural gas, synthetic gas, propane-air mixture, landfill gas, other unconventional source of methane gas or any mixture of these gases.

K. "Point of Connection" shall mean the outlet side of Company' measuring and regulating equipment.

L. "Premises" shall mean a Customer's building or a portion of a building and contiguous area.

M. Typical delivery pressure to residential customers will be 7 inches water column or 2 psig. Commercial and Industrial customers will be provided at a delivery pressure of up to 5 psig. Any delivery pressure other than these must be requested in writing and approved by the Company. Only one delivery pressure will be provided per meter location.

III. CONDITIONS OF SERVICE

A. **General** – The Customer shall consult with and furnish to the Company such information as the Company may require to determine the availability of the Company's service at a particular location before proceeding with plans for any new or additional gas loads. No new or additional gas loads will be served if it is determined that such service will jeopardize service to existing customers by increasing the total system's firm load requirements above available supplies.

~~B.~~**Heating Value** ~~– The heating value of the gas supplied will vary from time to time due to changes in the composition of the Company's send out. The composition of gas sendout will consist of natural gas, processed or unprocessed, vaporized liquid natural gas, synthetic gas, propane-air mixture in varying proportions depending upon the gas supply situation at any given time. The normal range of heating value will not be less than 950 nor more than 1,400 BTU per cubic foot of gas.~~

~~—~~The normal range of heating value will not be less than 950 nor more than 1400 Btu per cubic foot of gas.

Cubic Feet shall be converted to therm equivalent, for billing, by application of a fraction, the numerator of which shall be the weighted average BTU content of gas described in II.J. above entering the Company's system for the days representing the days in the billing cycle for the Customer and the denominator of which shall be 1,000. Where heating value by day is obtainable by means of a standard type of recording calorimeter, spectrometer, chromatograph or other approved instrument, then these daily values shall be used to convert cubic feet to the therm equivalent.

~~C.~~B. **Installation Requirements** – Before piping a premises or purchasing equipment, the Customer shall give the Company notice and shall ascertain from the Company the character of service available at such premises. The Company may specify the content and pressure of the gas to be furnished, the location of the meter, and the point where the service connection shall be made.

Where more than one service is required by the Customer, the Company w3ill provide such additional service upon payment by the Customer to the Company of the charges above the cost of the first service. Each installation shall be a separate account.

All piping and equipment must be installed and maintained in accordance with the applicable codes and requirements of the local, municipal, state, and federal authorities, and the Customer shall keep in good and safe repair and condition all such piping and equipment from the point of connection at the meter assembly with the facilities of the Company. Customer assumes responsibility and liability for damages and injuries caused by failures or malfunction of Customer's equipment.

~~D.~~C. **Connection/Reconnection** – An inspection by the appropriate jurisdiction must be completed and presented to the Company by the Customer prior to connection or reconnection of gas service on any premises where gas has not previously been served, or inactive for an extended period of time or where the gas piping has been modified or altered or if an unsafe condition exists.

~~A~~ The ~~responsible representative of the~~ Customer or an adult representative must be present to admit the Company Representative ~~and accompany Company Representative~~ during a connection/reconnection service visit.

_A minimum of one natural gas appliance must be connected, operational and ready for use prior to connection/reconnection of gas service. An appliance or device which is found to be unsafe shall be disconnected and the service shall remain disconnected.

~~E.~~D. **Limitations or Extensions** – Service is supplied only where, in the opinion of the Company, adequate service is available or can be made available under the provisions of these rules.

The Company's obligation to extend its facilities is limited to the assumption of new investment to the extent warranted by the revenue anticipated from the service to be supplied. Where the service to be supplied does not produce revenue sufficient to support the expenditure required to serve it, the Company will determine in each case the amount of payments and form thereof that may be required of the Customer.

The Company shall not be required to extend its distribution and service facilities, for the purpose of rendering gas service to the Customer until satisfactory rights-of-way, easements or permits have been obtained from government agencies and property owners, at the customers expense, to permit the installation, operation and maintenance of the Company's lines and facilities. The Customer in requesting or accepting service thereby grants the Company without charge necessary rights-of-way and privileges for its facilities along, across, and under property controlled by the Customer to the extent that such rights-of-way required or necessary to enable Company to supply service to the Customer and the Customer also grants the Company the right to continue or extend the Company's facilities on, across, or under with necessary rights to serve other Customers. Customers shall maintain such right-of-way so as to grant the Company continued access to its facilities by Company vehicles and other power-operated equipment.

Company will, subject to limitations stated in this Section III.E., and subject to the execution by the applicant and acceptance by Company of a service contract which includes a right-of-way agreement, furnish and install a service line along with standard appurtenances, such as shut-off-valve, regulator and meter, and required service pipe up to 125 feet more or less without cost to the applicant.

F. **Safe Access to Customer's Premises** – The duly authorized representatives of the Company shall be permitted at any and all reasonable times to inspect, operate and maintain the Company's and the Customer's facilities and equipment for any and all purposes connected with the delivery of service, the determination of connected load and other data to be used for billing purposes, the determination of Customer load requirements or the exercise of any and all rights under the agreement.

~~F.~~G. ~~**Access to Customer's Premises** – The Company shall at all reasonable times have the right to ingress and to egress from the premises of the Customer for any and all purposes connected with the delivery of service, or the exercise of any and all rights under the agreement.~~
Curtailment of Supply – The supply of service is subject to any orders of all duly constituted -governmental authorities establishing any priority or limitation to service.
Notwithstanding other provisions of the Company's Rate Schedules, the availability of gas service thereunder may be limited or curtailed, due to an insufficient supply of gas available to the Company, in accordance with priorities of service established and ordered by the Commission. ***(See Section VII, Limitations or Curtailment and Section VIII, Force Majeure)***.

H. **Denial or Discontinuance of Service** – The Company may refuse or discontinue service and -remove the property of the Company without liability to the Customer, or tenants, or occupant of the premises served, for any loss, cost damage or expense occasioned by such -refusal, discontinuance or removal, including but not limited to, any of the following reasons:

1. In the event of a condition determined by the Company to be hazardous or dangerous.~~unsafe~~.
2. In the event Customer's equipment is used in such a manner as to adversely affect the Company's service to others.
3. In the event of unauthorized or fraudulent use of Company's service.
4. Unauthorized adjustment of or tampering with Company's equipment.
5. Customer's failure to fulfill his contractual obligations.
6. For failure of the Customer to permit the Company reasonable access to its equipment.
7. For non-payment of bill for service rendered provided that the Company has made reasonable efforts to affect collections.
8. For failure of the Customer to provide the Company with a deposit.

9. For failure of the Customer to furnish permits, certificates, and rights-of-way, as necessary in obtaining service, or in the event such permissions are withdrawn or terminated.

10. For failure of the Customer to comply with reasonable restrictions on the use of service.

11. The Company shall not furnish its service or continue its services to any applicant, who at the time of such application, is indebted or any member of his household is or was indebted under an undisputed bill for service, previously furnished such applicant, or furnished any other member of the applicant's household or business.

12. The Company may terminate a Customer's service should the Customer be in arrears on an account for service at another premises.

13. For the reason that the Customer's use of the utility service conflicts with, or violates orders, ordinances or laws of the State or any subdivision thereof, or of the Commission.

The Company may discontinue service with notice for reasons (1), (2), (3) and (6) above. For the remainder of the reasons the Customer shall be allowed a reasonable time in which to correct any discrepancy.

Failure of the Company to terminate or suspend service at any time after the occurrence of grounds therefore or to resort to any other legal remedy or to exercise any one or more of such alternative remedies, shall not waive or in any manner affect the Company's right to later resort to any or more of such rights or remedies on account of any such ground then existing or which may subsequently occur. The Company shall not in any circumstances be liable to Customers or third parties for failure to terminate or suspend service to any Customer for any reason.

~~H.~~I. **Safety Requirements** – The Company is required under Regulations of the Commission to lock gas meters in the off position whenever service to a customer is discontinued. The requirement to lock a gas meter is applicable when gas service is turned off~~-at the request of the Customer or when a gas meter is found by the Company which has been turned off by the Customer or other unauthorized persons.~~.

Restoration of gas service under these conditions will require a reconnection call to unlock the gas meter and restore gas service. The reconnection charge will be assessed for all such reconnection calls. The turning on or off of gas meters is to be done by a person duly authorized by the Company only~~persons only~~.

J. **Reconnection Charge** – Where the Company has discontinued service for reasons listed in ***Section III. H. and III.I.,*** the Customer is subject to a reconnection charge of $25 in addition to any other charges due and payable to the Company. If a Customer requests that a reconnection be made after normal working hours, the charge is $35. In cases where both electric and gas services are reconnected at the same time on the same premises for the same Customer, only one charge will be made.

~~When a customer interrupts or terminates service and subsequently requests reconnection of service at the same premises, the reconnection charge will apply.~~ **K. Seasonal Block Charge** – A charge will apply for customers who disconnect service and subsequently request reconnection of service at the same premise within a 12 month period. This is commonly referred to as a seasonal block. The charge will be based on the number of months the customer is disconnected times the basic facilities charge as stated on the tariffs. In determining the month of disconnection, any number of days disconnected within a month constitutes a whole month of disconnection. If reconnection is requested to be performed after normal business hours as part of a seasonal block, an additional of $20.00 will be added to the charges as calculated above.

IV. **BILLING AND PAYMENT TERMS**

A. General – The rates specified in the various service classifications are stated on a monthly basis. Unless extenuating circumstances prevent, the Company will read meters at regular monthly intervals and render bills accordingly. If for any reason a meter is not read, the Company may prepare an estimated bill based on the Customer's average use billed for the preceding 60 days or from other information as may be available. All such bills are to be paid in accordance with the standard payment terms., and are subject to adjustment on the basis of actual use of service as computed from the next reading taken by the Company's representative or for any circumstances known to have affected the quantity of service used. No more than one estimated bill shall be rendered within a 60-day period unless otherwise agreed to by the Customer or allowed by the Commission. All billing errors shall be adjusted in accordance with the Commission's Rules and Regulations.

~~A.~~

~~A.~~B. **Obligation** – The customer is responsible for all charges for gas furnished and for all charges under the agreement until the end of the terms thereof.

All bills shall be due and payable when rendered. Notice and collection of unpaid bills will be in accordance with the current Rules and Regulations of the Commission.

No Claim or demand which the Customer may have against the Company shall be set off or counterclaimed against the payment of any sum of money due the Company by the Customer for services rendered. All such sums shall be paid in accordance with the agreement regardless of any claim or demand.

Should service be terminated, the Customer's deposit shall be applied to reduce or liquidate the account. Service may be restored upon payment of the account, in full, plus the late payment charge set forth below, the reconnection charge set forth above and a deposit up to an amount equal to the total actual bills of the highest two (2) consecutive months based on experience of the preceding twelve (12) months or portions of the year if on a seasonal basis.

~~B.~~C. **Late Payment Charge** – A late payment charge of one and one half percent (1 ½%) will be added to any balance remaining twenty-five (25) days after the billing date.

~~C.~~D. **Deposit** – A maximum deposit in an amount equal to an estimated two (2) months (60 days) bill for a new Customer or in an amount equal to the total actual bills of the highest two (2) consecutive months based on the experience of the proceeding twelve (12) months or portion of the year if on a seasonal basis may be required from the Customer as security for payment of the account before service is rendered or continued if any of the following conditions exist: (1) the Customer's past payment record to the Company shows delinquent payment practice; (2) a new Customer cannot furnish either a letter of good credit from an acceptable source or an acceptable cosigner of guarantor on the Company's system to guarantee payment; (3) a Customer has no deposit and presently is delinquent in payments; (4) a Customer has had his service terminated for non-payment or fraudulent use. All deposits may be subject to review based on the actual experience of the Customer. The amount of deposit may be adjusted upward or downward to reflect the actual billing experience and payment habits of the Customer.

E. **Service Charge** – The Company may make reasonable charges for work performed on or services rendered:

1. Upon Customer's request at the Customer's premises when, at the time the request is made, service and equipment provided by the Company is in good working condition and in compliance with these General Terms and Conditions and such other regulations as may be promulgated from time to time by any municipal bureau or other governmental agency having jurisdiction over the Customer's installation or premises;

2. To repair, replace, remove, disconnect or gain access to Company's facilities or equipment where such repair, replacement removal or disconnection is made necessary by the willful action(s) of the Customer, members of the Customer's household or invitees of the Customer; or

3. To repair, replace, remove or gain access to Company's facilities or equipment where such repair, replacement or removal is made necessary by the negligent failure of the Customer to take timely action to correct or to notify the Company or other responsible party to correct conditions which led to the needed repair, replacement or removal, except that such charges shall be apportioned between the Customer and the Company to the extent that the Customer shall only bear that part of the costs which reflect the costs added by the Customer's negligence. Such charges cannot be assessed where the damage is caused by an Act of God except to the extent that the Customer failed timely to mitigate the damages. Such charges may include labor, materials and transportation.

V. COMPANY'S LIABILITY

The Company will not be liable for damages or injuries sustained by Customer or others, or by the equipment of the Customer or others by reason of the condition or character of Customer's piping and equipment, or the piping and equipment of others on the Customer's premises. The Company will not be responsible for the use, care, or handling of service delivered to the customer after the same passes beyond the point oif interconnection of the Company's facilities with that of the Customer. Customer assumes responsibility and liability for damages and injuries caused by failures or malfunction or Customer's equipment.

VI. MEASUREMENT OF SERVICE

A. **Measurements** – The volume and total heating value of the gas delivered hereunder shall be determined as follows:

1. All volumes delivered shall be corrected to the pressure base of 14.73 psia and temperature base of 60° F. The average absolute atmospheric pressure shall be assumed to be fourteen and seven-tenths (14.7) pounds to the square inch, irrespective of actual elevation or location of the point of delivery above sea level or variations in such atmospheric pressure from time to time.

2. When orifice meters are used, volumes delivered shall be computed in accordance with accepted industry standards ~~the specification, formulae and tables published March 1978 as Gas Measurement Committee Report No. 3 of the American Gas Association, and any modifications and amendments thereto and shall include the use of flange connections.~~

3. Gas volumes will be adjusted for BTU content, pressure, temperature, supercompressability, specific gravity and any other applicable factors.

4. The temperature of the gas shall be assumed to be 60° F. unless Company elects to install a recording thermometer or temperature correcting device. If a recording thermometer is installed, the arithmetical average of the 24 hour period will be used to determine the temperature correctly.

5. The specific gravity of the gas shall be determined daily by a recording graviometer or any other instrument of an industry acceptable standard manufacturer.

6. The total heating value of the gas delivered hereunder shall be determined by Company by using a standard type of recording calorimeter or other instrument of an industry acceptable standard manufacturer which shall be located on Company's system and/or its supplier's system, in order that the BTU content of gas delivered hereunder by be properly obtained.

B. Meter Testing on Request of Customer – The Customer may, at any time, upon reasonable notice, make written request of the Company to test the accuracy of the meters in use for his service. No deposit or payments shall be required from the Customer for such meter test if said meter has been in service at least one year without testing at Company's expense; otherwise, the Customer shall deposit the estimated cost of the test; said deposit shall not exceed $15 without the approval of the Commission. The amount so deposited with the Company shall be refunded or credited to the Customer as part of the settlement of the disputed account if the meter if found, when tested, to register more than two percent (2%) fast or slow, otherwise the deposit shall be retained by the Company.

~~C.~~C. Adjustments for Inaccurate Meters - ~~Where it is determined that the Company's meter is inaccurate or defective by more than two percent (2%) error in registration, bills shall be adjusted as follows:~~

~~1.Bills shall be increased or decreased accordingly, if the time at which the error first developed or occurred can be definitely determined.~~
~~2.If such time cannot be determined, corrections shall not be made for more than six (6) months.~~Where it is determined that the Company's meter is inaccurate or defective by more than 2% error in registration, bills shall be adjusted in accordance with the Commission Rules and Regulations.

VII. LIMITATIONS OR CURTAILMENTS

Notwithstanding other provisions of the Terms and Conditions and Rate Schedules of this tariff, the availability of gas service may be limited or curtailed due to operating conditions or any gas supply deficiency. During any period when operating conditions or gas supply deficiencies require limitations or curtailment, the Company shall curtail deliveries of gas without discrimination within priority of service categories established by the Commission as follows:

A. Definitions - The definitions of the term used in the Curtailment Plan are as follows:

1. **Residential** - Service to Customers which consists of direct natural gas usage in a residential dwelling of space heating, air conditioning, cooking, water heating, and other residential uses.
2. **Commercial** – Service to Customers engaged primarily in the sale of goods or services including institutions and local, state and federal government agencies for uses other than those involving manufacturing or electric power generation.
3. **Industrial** – Service to Customers engaged primarily in a process which creates or changes raw or unfinished materials into other form or product including the generation of electric power.

4. **Firm Service** – Service from Rate Schedules or contracts under which Seller is expressly obligated to deliver specific volumes within a given time period and which anticipates no interruptions, but which may permit unexpected interruptions in case the supply to higher priority Customers is threatened.
5. **Interruptible Service** – Service from Rate Schedules or contracts under which Seller is not expressly obligated to deliver specific volumes within a given time period, and which anticipates and permits interruption on short notice, or service under Rate Schedules or contracts which expressly or impliedly require installation of alternate fuel capacity.
6. **Plant Protection Gas** – Minimum volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production.
7. **Feedstock Gas** - Natural gas used as a raw material for its chemical properties in creating an end product.
8. **Process Gas** - Gas used for which alternate fuels, other than another gaseous fuel, are not technically feasible such as applications requiring precise temperature controls and precise flame characteristics.
9. **Boiler Fuel** – Natural gas used as fuel for the generation of steam and internal combustion turbine engines for the generation of electricity.
10. **Alternate Fuel Capacity** – A situation where an alternate fuel could have been utilized whether or not the facilities for such have actually been installed: provided, however, where the use of natural gas is for plant protection, feedstock, or process uses and the only alternate fuel is propane or other gaseous fuel, then the Buyer will be treated as if he had no alternate fuel capability if such fuel is unobtainable for serving fuel needs.
11. **Storage Injection Requirements** – Volumes required by the Company for injection into underground storage, including cushion gas and for liquification, including fuel used for injection in liquification plants, or for such other storage projects which may be developed expressly for the protection of supply or high priority uses.
12. **Company Use Gas** - Fuel used in gas compression, propane-air plants, LNG plants, other gas needed by Company's facilities to furnish the requirements of Customers, together with unaccounted for gas, shall be considered for purposes of this curtailment plan to be in Category 1.
13. **Essential Human Needs** - Natural gas service, which, if denied, would cause shutdown of an operation resulting in closing of an establishment essential to maintaining the health and safety of the general public.
14. **Gas Supply Deficiency** – Any occurrence relating to Company's gas supply which causes company to deliver less than the total requirements of its system, including failures of suppliers to deliver gas for any reason, requirements of gas for system storage, conservation of gas for future delivery, or any other occurrence not enumerated herein which affects Company's gas supply.
15. **Emergency Service** – Supplemental deliveries of natural gas that may be required to forestall irreparable injury to life or property including environmental emergencies.

B. Curtailment for Gas Supply Deficiency

In the event of Gas Supply Deficiency on the Company's system, the Company shall requir~~eement~~ curtailment of service to Customer in accordance with the following procedure.

(a) The Company shall order curtailment of sales made to Customers purchasing gas under the Company's Rate Schedules or special contracts in descending order in accordance with priority of service categories set forth below. Approved emergency gas is excepted from curtailment.

1. Residential and small commercial Customers (less than 50 Dekatherms on a peak day) and essential human needs Customers where there is no installed or available alternate fuel capability.
2. Large commercial direct flame requirements (20 Dekatherms or more on a peak day); firm industrial requirements for plant protection, feedstock and process needs, and storage injection requirements.

3A. Firm industrial requirements for uses other than boiler fuel which do not qualify for Category 2.
3B. Firm commercial and industrial boiler fuel requirement up to 1,000 Dekatherms on a peak day.
3C. Interruptible requirements for human need types of facilities such as public buildings, hospitals and laundries.
3D. Interruptible requirements for direct flame applications which can utilize only another gaseous fuel as an alternate.
3E. Interruptible requirements for direct flame applications which an utilize a fuel other than a gaseous fuel as an alternate.
3F. Interruptible requirements for boiler fuel use of less than 300 Dekatherms on a peak day.

4. (LEFT BLANK INTENTIONALLY.)
5. (LEFT BLANK INTENTIONALLY.)
6. Interruptible boiler fuel requirements of 300 Dekatherms or more, but less than 1,500 Dekatherms on a peak day, where alternate fuel capabilities can meet such requirements.
7. Interruptible boiler fuel requirements of 1,500 Dekatherms or more, but less than 3,000 Dekatherms on a peak day, where alternate fuel capabilities can meet such requirements.
8. Interruptible boiler fuel requirements of 3,000 Dekatherms or more, but less than 10,000 Dekatherms on a peak day, where alternate fuel capabilities can meet such requirements.
9. Interruptible boiler fuel requirements of 10,000 Dekatherms or more on a peak day, where alternate fuel capabilities can meet such requirements.
10. Natural gas requirements of Customers who have alternate fuel as their primary source, but use natural gas as a standby fuel.

(b) Curtailment will be in descending order beginning with Category 10 (i.e. Category 1 is the highest priority).

A determination of the category in which a Customer is placed will be made each year based upon usage in the preceding twelve (12) months ending August 31 and/or current contract as of the same date. The placement of a Customer in a category in accordance with the determination made herein will be effective November 1 of the current year, extending through October 31 of the following year. A moving base period will be used each year with such base period to include the preceding twelve (12) months ending August 31 of the current year. Reclassification in categories will be effective on November 1 of the current year. Where a reclassification is necessary, the affected Customer will be notified of such reclassification prior to November 1 of the current year.

(c) Where daily volumes are not available to make the determination of the 50/Dekatherms/day required in Section (b) of the Curtailment Plan, then the daily volume requirements shall be determined by taking the Dekatherms usage of the Customers for any month during the previous twelve (12) month period ending August 31 and dividing that month's use by the number of days during that specific billing cycle and multiplying the result by 1.5. By means of the average daily volume thus obtained, the Customer will be placed in the appropriate category. Where daily volumes for the peak month in the base period are available to make the required determination, then such volumes will be used.

(d) Any new Customer added during any base period will be placed in the appropriate category by the Company in accordance with the best information available.

VIII. FORCE MAJEURE

In the event Company is unable, wholly or in part, by reason of Force Majeure to carry out its obligation to provide service under its Rate Schedules or contracts, the obligations of Company, so far as they are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused by for no longer period and such cause shall, as far as possible, be remedied with all reasonable dispatch.

The term "Force Majeure" as employed herein shall include but not be limited to ~~mean~~ acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockade, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, extreme weather conditions, storms, floods washouts, arrest and restraints of government and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, the maintaining or repairing or alteration of machinery,equipment structures, or lines of pipe (which maintaining, repairing or alteration shall, however be carried out in such manner as to reasonably minimize~~cause the smallest~~ practicable curtailments or interruption of deliveries of gas), freezing of wells or lines of pipe, partial or entire failure or depletion of gas wells, partial or complete curtailment of deliveries under Company's gas purchase contracts, inability to obtain rights-of-way or permits or materials, equipment or supplies, and any cause other than those enumerated herein (whether of the kind enumerated or otherwise) not within the control of the person claiming suspension and which by the exercise of duel diligence such party is unable to prevent or overcome. It is understood and agreed that the settlement or strikes or lockouts shall be entirely within the discretion of the persons affected, and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts when such course is i~~u~~nadvisable in the discretion of the person affected there~~by.~~

South Carolina Electric & Gas Company
Gas Operations Cost of Service Study
12 Months Ending 12/31/04

	Description	TOTAL	RESIDENTIAL	SMALL	LARGE	TOTAL FIRM	INTERRUPTIBLE
1	**TOTAL REVENUES**	401,450,532	154,811,036	96,196,727	10,192,789	261,200,552	140,249,980
2	**OPERATING EXPENSES**						
3	O&M EXPENSES - FUEL	314,983,882	110,865,215	73,211,649	5,268,041	189,344,905	125,638,977
4	- OTHER	50,138,066	36,501,682	10,321,738	1,402,332	48,225,752	1,912,314
5	DEPRECIATION & AMORIZATION EXPENSE	15,814,441	11,389,865	3,634,601	569,737	15,594,203	220,238
6	TAXES OTHER THAN INCOME	13,393,908	9,254,174	3,166,199	472,314	12,892,687	501,221
7	TOTAL INCOME TAXES	(362,893)	(6,785,497)	656,725	640,667	(5,488,105)	5,125,212
8	TOTAL OPERATING EXPENSES	393,967,404	161,225,439	90,990,913	8,353,091	260,569,442	133,397,961
9	OPERATING RETURN	7,483,128	(6,414,403)	5,205,814	1,839,699	631,110	6,852,019
10	INTEREST ON CUSTOMER DEPOSITS	(332,997)	(247,908)	(85,089)	-	(332,997)	-
11	**RETURN**	7,150,131	(6,662,310)	5,120,724	1,839,699	298,113	6,852,019
12	**RATE BASE**						
13	GAS PLANT IN SERVICE	528,352,568	378,262,899	123,251,820	19,688,248	521,202,967	7,149,600
14	RESERVE FOR DEPRECIATION	(215,456,248)	(153,698,992)	(50,678,889)	(8,141,648)	(212,519,529)	(2,936,719)
15	NET PLANT	312,896,320	224,563,907	72,572,931	11,546,601	308,683,438	4,212,881
16	TOTAL CONSTRUCTION WORK IN PROGRESS	4,121,639	2,922,849	982,021	158,630	4,063,500	58,139
17	DEFERRED DEBITS/CREDITS	(6,917,910)	(4,671,317)	(1,811,103)	(169,063)	(6,651,483)	(266,427)
18	TOTAL WORKING CAPITAL	(5,570,348)	(3,182,657)	(1,790,760)	(65,703)	(5,039,120)	(531,228)
19	TOTAL MATERIALS & SUPPLIES	1,463,811	1,073,693	330,473	59,377	1,463,542	270
20	ACCUMULATED DEFERRED INCOME TAXES	(37,771,135)	(26,719,697)	(9,031,638)	(1,448,172)	(37,199,507)	(571,628)
21	**TOTAL RATEBASE**	268,222,377	193,986,777	61,251,924	10,081,669	265,320,370	2,902,007
22	**RATE OF RETURN**	2.67%	-3.43%	8.36%	18.25%	0.11%	236.11%

EXHIBIT NO. ___(KRJ-3)